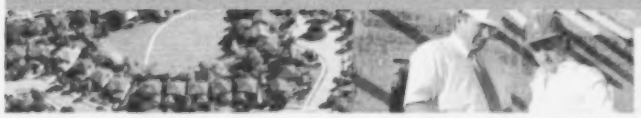
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Charlottetown CA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2017

Figure 1

Source: CMHC, (F): Forecast.

Figure 2

Source: PEIREA, (F): CMHC Forecast.
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[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Immigration to Drive Economy[1]

Immigration will underpin the economic, demographic, and housing sector forecasts for both Prince Edward Island (PEI) and the Charlottetown Census Agglomeration (CA) over the coming years. In 2016, a near-record setting number of new immigrants came to PE, resulting in the fastest pace of population growth since 1971. The majority of these new immigrants settled in the Charlottetown CA upon arrival, stimulating the rental, resale, and new home construction markets.

Expectations are that immigration will continue to fuel population growth for the Charlottetown CA over the forecast horizon. As a result, consumer spending and construction activity will generate much of the thrust in the local economy over the next two years. Stronger economic growth will encourage growth in private sector jobs, support newcomer retention and lead to an expansion of the housing stock.

Canada

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More Houses Needed

Housing starts in the Charlottetown CA are anticipated to increase significantly in 2017 and remain at elevated levels for the next two years. Positive economic and demographic fundamentals have been the catalyst for the growing demand for new homes. Demand has been further accentuated by the limited supply of resale homes available to potential homebuyers and tight rental market conditions.

Construction of single-family homes are expected to stabilize near levels seen before the 2008 financial crisis across the forecast horizon. The anticipated rise in singles starts reflects the spillover from the resale supply issue and the population-driven demand for housing. Growth in singles starts is likely to be constrained somewhat by the availability of skilled labourers as labour force growth has been lagging employment gains.

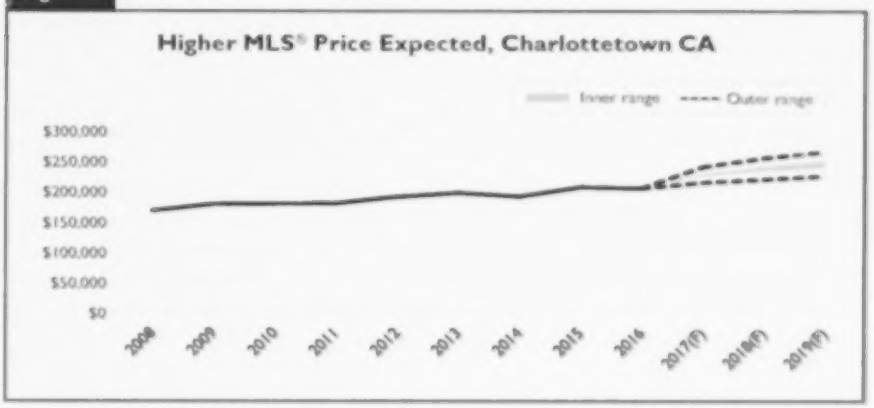
Much of the growth in multiples starts this year will be from homeownership products such as semi-detached homes and townhouses. These products are desirable to downsizing seniors who have benefited from stronger resale market conditions. Over the next two years, apartment starts will increase and will make up the majority of multiples starts. Demand for new rental apartment units will be driven by current low vacancy rates and increased demand stemming from new immigrant families, downsizing seniors, and international students.

Sellers' Market Conditions to Remain

Charlottetown's resale market is positioned to have another busy year. Although the supply of MLS® active listings has continued to fall throughout 2017, demand remains strong. This imbalance will cap the number of MLS® sales for 2017 at levels similar to last year. Afterwards they are expected to move modestly higher as Charlottetown's stock of housing expands. Specifically, this will reflect the need of existing homeowners to sell their existing homes prior to moving into their newly constructed homes.

Demand for homes has grown quickly over the past two years, outpacing the number of new listings, and drawing down the number of active listings. This imbalance is expected to moderate somewhat over the forecast period as more homes are built, but upward pressure on the average MLS® price will likely remain.

Figure 3



Source: PEIREA; (F): CMHC Forecast.
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More Rental Demand than Supply

The supply of purpose-built rental apartments in Charlottetown has expanded by an average of 124 units per year over the past decade. Although vacancy rates have fluctuated somewhat during this expansionary period, a reduction in the number of new units added to the market has allowed demand to catch up with supply in recent years.

Population growth will continue to fuel demand for rental accommodations over the forecast horizon. Although some new immigrant families are choosing homeownership over rental, there are still a significant number that need rental housing. These newcomers, combined with downsizing seniors and international students, will create a continuing need for rental accommodations that will exceed the supply of new rental units. This demand-supply imbalance will move vacancy rates lower and rents higher over the forecast period.

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Forecast Risks

The greatest risk to the forecasts lie within our population assumptions and the components of that growth. Should substantial differences arise between our forecast and actuality, the impact would ripple through the forecast.

For example, should international migration come in below forecast, the economy would be negatively affected. This would result in reduced consumption of goods and services and a drop in employment. Its impact would first be felt in the rental market via higher vacancy rates. It would then follow with a reduced need for new homes and the resale market would see sales slow and prices either stagnate or fall.

In contrast, should international migration exceed forecasted levels, the economy would continue to advance. A growing population would require more housing, placing additional pressures on the rental, resale, and new home construction markets. Supply of new housing would need to grow but would likely be constrained by the availability of skilled labourers. As a result, one could expect a sharper decline in vacancy rates, a further reduction in the supply of resale homes, and an overall increase in housing consumption that exceeds the current forecast.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

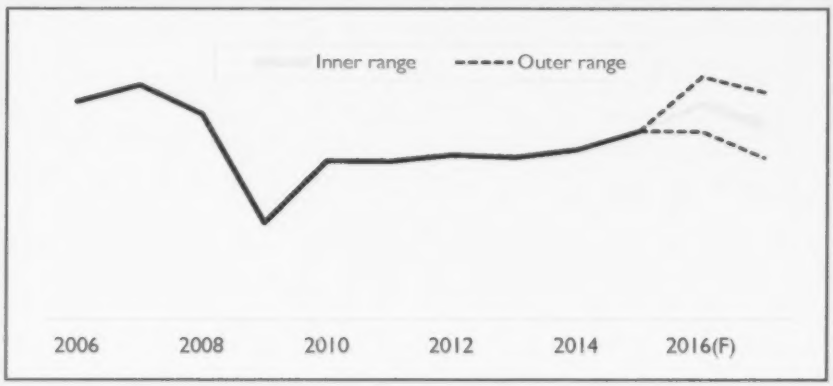
In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary Charlottetown CA Fall 2017									
	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	138	129	139	245	275	225	255	260	300
Multiples	121	162	173	230	270	350	450	230	310
Starts - Total	259	291	312	475	545	575	705	490	610
Resale Market									
MLS® Sales	586	642	812	775	875	775	925	750	1,000
MLS® Average Price($)	204,009	205,111	226,868	249,000	251,000	267,000	273,000	280,000	290,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	5.9	4.2	1.7	0.5	0.4	0.8
Two-bedroom Average Rent (October)($)	836	830	872	910	950	975
Economic Overview						
Population	69,264	70,446	72,344	74,500	76,000	77,500
Annual Employment Level	36,775	36,700	36,825	38,300	38,800	39,400

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, Prince Edward Island Real Estate Association, CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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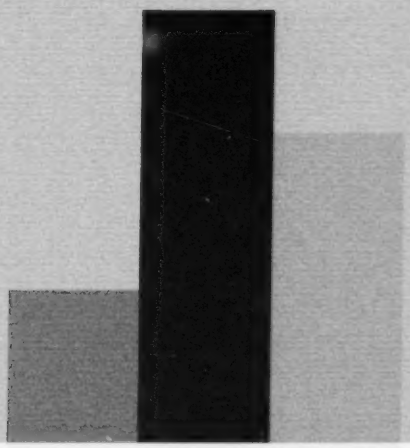

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